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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1980

THE CONFERENCE BOARD

The Conference Board Survey of Financial Indicators

October 1980

Introductory Note: This is the ninth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

The ninth semiannual survey of Financial Indicators and Corporate Financing Plans took place during a period when U.S. interest rates were again rising sharply, and there was increasing speculation that the U.S. economy might experience a "double-dip" recession. It was also a period in which world commodity prices rose sharply despite a widespread view that a number of major industrial countries overseas were likely to head into recession in 1981. The majority of financial executives in this survey see the U.S. recession continuing through the fourth quarter of 1980. They then see the economy going nowhere in 1981, with real economic growth averaging only 1.3 percent above real growth in 1980—a recession year.

Three main conclusions emerge from this ninth semiannual survey in which 45 senior corporate financial officers participated:

- The panel sees the latest run-up in interest rates as temporary, and looks for both short-term and long-term rates to drop by year end, as well as through the end of the first quarter of 1981.
- Despite a widespread view that the underlying rate of inflation in the United States is 9-10 percent, moderate progress is seen in the battle against inflation through 1982.
- As regards their external financing plans, companies plan to place relatively heavy emphasis on new bond issues in 1981.

U.S. Financial Indicators

Although panel members see relatively little growth in 1981, in their first look at 1982 they see real economic growth rising at an average rate of nearly 4 percent annually. And the majority of them have not yet "thrown in the towel" on double-digit inflation. Some progress is seen in reducing inflation, with the GNP deflator falling from 9.2 percent in 1981 to 8.9 percent in 1982. This outlook for 1982, however, calls into question whether the Federal Reserve will be able to continue to reduce its monetary targets gradually over time, or, for that matter, whether the Fed will even maintain its 1981 targets. The nominal GNP of nearly 13 percent for 1982 suggests that panel members do not think the monetary authorities will adhere to their targets. Twice a year the Federal Reserve, in its report on monetary policy, presents to Congress its target ranges for several measures of money and credit. This year, for instance, the target ranges for currency and demand deposits are 3½ to 6 percent, with the Fed aiming to hit the midpoint of the range.

Very little change in either short-term or long-term interest rates is anticipated during the period 1981-1982. This outlook is consistent with the view that monetary aggregates in 1982 will again grow more rapidly than the rates specified in existing money targets. Even with the Federal Reserve's existing money targets, a very sharp increase in interest rates would be necessary to obtain the growth in velocity that is required for a nominal GNP of 13 percent.

Corporate Financing Plans—September 1, 1980 to August 31, 1981

Although the prime rate is expected to average slightly less than the Aaa rate over the next two years, many companies are hedging their bets and plan to rely heavily on new bond issues for the twelve-month period beginning September 1, 1980. Twenty-four executives look for net bond issues and private placements to

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook: Average Dec. '80 (4th Q GNP)	Outlook: Average March '81 (1st Q GNP)	Outlook: Average 1981	Outlook: Average 1982
New Aaa industrial rate (%)	11.2	11.4	11.1	11.0	11.0
Prime rate (%)	10.8	11.3	10.6	10.7	10.8
Dow-Jones Average (Index)	910.0	956.0	974.0	987.0	1,054.0
Real GNP (%)	—9.1	—0.8	1.5	1.3	3.8
GNP deflator (%)	10.4	9.6	9.3	9.2	8.9

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of Total Funds						
Internal Funds[1]	74	14	2	14	5	9
External Funds	26	14	5	9	2	14
	100%					
(b) Composition of *External Funds*						
Net bond issues	34.2	13	1	15	1	6
Private placements	17.9	21	0	8	1	6
Net new equity	23.1	23	1	3	0	9
Bank term loans	9.9	23	0	4	0	9
Bank short-term loans	7.0	23	1	6	0	6
Commercial paper	5.5	16	2	6	1	11
Other	2.4	33	1	1	0	1
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1980:

	Latest Available 9/1/80	Expected Change (Number of Respondents): By December 31, 1980 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1981 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8644	27	7	0	8	0	24	12	0	5	0
British pound	2.41	9	13	0	20	0	5	6	0	25	5
German mark	.5596	16	19	0	6	0	5	22	3	7	1
Japanese yen	.0046	12	16	8	5	0	7	17	8	7	0
Gold	$631.25	6	14	15	2	1	6	15	12	2	2

increase as a percentage of total external funds, and twenty-three of them see increases of 10 percentage points or more in their companies' use of these long-term funds. The volume of new corporate issues fell sharply in September as long-term interest rates rose. The findings of this survey suggest that many companies may be waiting for long-term interest rates to decline before they come to market with new issues.

One surprising change in the financing pattern over the past twelve-month period was that the companies participating in this survey made relatively greater use of equity financing than they had anticipated earlier. This greater use of equity financing may have been due, in part, to stock prices that were considerably higher than the panel anticipated last March. A second, and perhaps more fundamental reason for the greater use of equity may have been to strengthen corporate capital structures so as to prevent a decline in debt ratings and maintain future financial flexibility.

As was anticipated in the April, 1980 survey, companies placed relatively greater reliance on external funds during the past twelve-month period, with external funds accounting for 26 percent of total corporate funds. During each of the preceding three years, as shown in the April, 1980 survey, external funds have averaged slightly under 20 percent of total funds. The outlook for the twelve-month period beginning September 1, 1980 is for relatively little change, which means that the participating companies' *relative* reliance on external funds will remain above their average for the past several years.

The International Environment

The majority of financial executives engaged in international operations see the Japanese yen rising against the U.S. dollar over the next two quarters from its exchange value of September 1st. The majority also sees the German mark appreciating and the British pound depreciating against the U.S. dollar by March 31, 1981. The outlook for the Canadian dollar is less clear cut, with the majority of executives looking for less than 1 percent change against the U.S. dollar over the next two quarters. The price of gold is expected to appreciate against the dollar through March 31, 1981, with roughly half of the majority who see an increase in its price expecting a rise of more than 5 percent.

Vincent G. Massaro

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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

April, 1981

The Conference Board Survey of Financial Indicators

April 1981

Introductory Note: This is the tenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Unlike the two preceding surveys, the tenth semiannual survey of Financial Indicators and Corporate Financing Plans took place during a period in which interest rates were falling rather than rising sharply. However, it was also a period in which many participants in the U.S. economy had adjusted their views as to what constituted high interest rates. There is now a "new window" for long-term funds that would open at interest rates which, as recently as last year, were associated with a crisis period and were, therefore, regarded as temporary.

According to the 43 senior finanical executives who participated in this survey:

- Moderate progress is expected in slowing inflation through 1982, although the rate of inflation will remain uncomfortably high.
- Companies in the survey plan to rely more heavily than usual on external funds; and many are still intending to issue new bonds, particularly if long-term interest rates were to decline in line with the panel's forecast.
- The U.S. dollar which has been relatively strong in late 1980 and early 1981 is generally expected to weaken through the third quarter of this year.

U.S. Financial Indicators

The participating financial executives see the overall economy for the years 1981-1982 following a pattern that has normally been associated with economic recovery. They see real economic growth rising from 1.7 percent in 1981 to 3.7 percent in 1982. While most executives see relatively little growth in the second quarter of 1981, only two respondents look for a "double dip" recession in 1981; and no executive expects real growth of less than 2 percent for the year 1982.

The panel members look for both rates of inflation and interest rates to be lower in 1982 than the average rates prevailing this year. The GNP deflator is expected to decline by one percentage point, from 10.2 percent in 1981 to 9.2 percent in 1982. Only one panel member sees the GNP deflator rising more rapidly in 1982 than this year. Both short-term and long-term interest rates are expected to drop, but to remain at historically high levels. In line with the one percentage point decline in inflation, the Aaa rate is expected to fall from an average of 13 percent in 1981 to 12.1 percent in 1982; and the prime rate is forecast to fall from an average of 15.9 percent in 1981 to 13.7 percent next year.

In the preceding survey, financial executives were generally looking for very little change in either short-term or long-term interest rates. The rise in long-term interest rates since October, 1980, has been roughly 2 percentage points above their expectations; and, following an unprecedented fluctuation in short-term interest rates, the prime rate has averaged roughly 8 to 9 percentage points more than was forecast. The extent of the unexpected rise in the prime rate can be partially traced to the strength of the recovery in the fourth quarter of 1980, in which real economic growth rose at a rate of 4 percent annually. The unexpectedly sharp rise in interest rates can also be traced to a procedural change in the Federal Reserve's approach that places greater emphasis on bank reserves and allows much wider swings in short-term interest rates. The effect of this procedural change on interest rates may not yet be fully appreciated.

There are two points of special interest that emerge from the panel's overall forecast of the U.S. economy. First, their outlook raises the question of whether the Federal Reserve will continue to reduce money growth through 1982, as is now intended. The panel's expectation of lower interest rates could well turn out to be in-

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1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of survey)	Outlook			
		Average June '81 (2nd Q GNP)	Average Sept. '81 (3rd Q GNP)	Average 1981	Average 1982
New Aaa industrial rate (%)	13.3	12.9	12.7	13.0	12.1
Prime rate (%)	19.5	15.7	14.9	15.9	13.7
Dow-Jones Average (Index)	952.0	978.0	999.0	984.0	1,075.0
Real GNP (%)	5.0	0.3	2.4	1.7	3.7
GNP deflator (%)	11.2	10.1	9.7	10.2	9.2

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points)		Down (percentage points)	
			5-9.99	10 or more	5-9.99	10 or more
(a) Composition of Total Funds						
Internal Funds[1]	75	13	5	8	6	9
External Funds	25	13	6	9	5	8
	100%					
(b) Composition of *External Funds*						
Net bond issues	24.6	12	1	14	1	7
Private placements	23.8	22	2	4	1	6
Net new equity	17.6	26	1	2	2	4
Bank term loans	8.3	28	0	2	0	5
Bank short-term loans	2.7	26	1	3	1	4
Commercial paper	17.9	16	3	7	1	8
Other	5.1	29	3	1	0	2
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1981:

	Latest Available 3/1/81	Expected Change (Number of Respondents)									
		By June 30, 1981					By September 30, 1981				
		Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8317	24	10	0	3	0	15	18	1	2	0
British pound	2.20	11	10	0	14	3	10	10	1	11	5
German mark	.4695	7	18	2	8	1	6	15	4	7	2
Japanese yen	.0048	7	19	3	7	0	5	16	6	7	1
Gold	$489.00	5	8	2	10	7	3	11	4	7	6

consistent with the growth in the velocity of money that would accompany a rise in nominal GNP of approximately 13 percent, should the Federal Reserve meet its money targets. (Both the Reagan Administration's budget and the Federal Reserve's money targets were publicly available in time to be taken into account by the survey participants.)

Second, an unusual pattern of interest rates is anticipated for the period of recovery. While average interest rates are expected to be lower in 1982 than in 1981, the average prime rate, which in this survey is representative of short-term interest rates, remains above the Aaa rate in both years. Short-term interest rates have stayed above the level of long-term rates in past periods that preceded sharp declines in economic activity. If, in fact, the prime rate were to remain above long-term rates, as the panel expects, for a prolonged period of roughly two years, this inversion of the yield curve could have important implications not only for corporate finance but also for those institutions that are heavily dependent upon a normal yield curve. Indeed, it could have important implications for the economy itself.

Corporate Financing Plans—March 1, 1981 to Feburary 28, 1982

One major conclusion reached in the October, 1980 survey was that external funds would play a relatively more important role in the financing patterns of the large companies that participate in this survey. That, in fact, has happened as external funds accounted for approximately 25 percent of total corporate funds. During each 12-month period from September 1, 1975 through September 1, 1979, external funds of the participating companies had averaged roughly 20 percent of total funds, as was shown in the April, 1980 survey.

One surprising finding of this survey is that, on balance, little net change is expected in the degree of corporate reliance on internal and external funds for the 12-month period March 1, 1981 through Februry 28, 1982. In view of the accelerated depreciation that is widely expected to be in effect as of the beginning of 1981, a return to somewhat greater reliance on internally generated funds (as in earlier years) might have otherwise seemed likely.

As regards their external financing plans, it is still clear that a large number of companies wish to increase their long-term debt. Fifteen executives look for net bond issues to increase as a percentage of total external funds, and fourteen of them see increases of 10 percentage points or more in their company's net bond issues. While the planned use of bank loans is relatively minor, these loans could become more significant if conditions in long-term markets were to discourage corporate borrowing, or if bank loans were to be priced more competitively against commercial paper.

The International Environment

The sharp and unexpected rise in interest rates described above had an important bearing on the international strength of the U.S. dollar in the fourth quarter of 1980 and in early 1981. Panel members correctly forecast that the British pound would depreciate and the Japanese yen would appreciate against the U.S. dollar. They (and many others) did not foresee, however, that the German mark would depreciate sharply against the dollar; nor did they foresee the sharp drop in the price of gold—both of which were heavily influenced by the high U.S. interest rates.

Looking ahead, the majority of financial executives engaged in international operations see the German mark and the Japanese yen appreciating against the dollar over the next two quarters from their exchange values of March 1st. And they also look for the Canadian dollar to appreciate against the U.S. dollar by September 30th.

The executives' outlook for the British pound is more divided. Generally, a larger number see the pound depreciating rather than appreciating against the dollar by both June 30th and September 30th, 1981. Their outlook for the price of gold is also divided. More executives see the price of gold falling than rising against the dollar by June 30th; but, then, more see its price rising than falling by September 30th, 1981. For the period through September 30th, the participating financial executives generally see a reversal of the dollar's strength—which had been demonstrated over the past six months.

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Introductory Note: This is the eleventh issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

In sharp contrast to the preceding survey, the eleventh semiannual Survey of Financial Indicators and Corporate Financing Plans took place during a confusing period in which long-term interest rates rose to new record levels; short-term rates declined; and stock market prices plunged. The overall economic environment was reminiscent of earlier periods which marked turning points in the business cycle, specifically those periods that immediately preceded a recession. The excesses and imbalances that normally foreshadow a recession, however, were largely absent from the real economy, which was already experiencing what appeared to be its second consecutive quarter of negative growth. The 38 financial executives who participated in this survey generally:

- See relatively low growth in 1982;
- Expect long-term and short-term interest rates to fall modestly from their October 1st levels but to remain relatively high by historical standards;
- Look for a substantial improvement in inflation in 1982, with further modest improvements in 1983;
- Continue, as in preceding surveys, to have financing plans that rely heavily on new bond issues;
- See the U.S. dollar weakening against other major currencies, with the exception of the British pound.

U.S. Financial Indicators

The participating financial executives have lowered their estimates of real growth for 1982 from 3.7 percent in the April, 1981, survey to 2.2 percent in this survey. In their first look at 1983, they do, however, see real economic growth rising at an average rate of 3.5 percent annually. One executive looks for a serious recession in 1982; four others see a mild recession in 1981-1982; none expects a recession in 1983.

The panel members see declining rates of inflation and interest rates over the forecast period. They now expect inflation to average 7.8 percent in 1982, compared with a much higher average of 9.2 percent for the same year in the April survey. Despite this substantial improvement in the outlook for inflation, the new Aaa rate is expected to average 13.8 percent in 1982, well above the 12.5 percent that was anticipated in the preceding survey. (The prime rate is expected to average 16 percent in 1982 and 13.7 percent in 1983, rates that would keep it above the Aaa rate through 1983.)

Normally, a lowering of inflationary expectations would lead to lower rather than higher long-term interest rates. These apparently inconsistent changes in the outlook could be due to the recognition, since last April, that structural adjustments have taken place that have raised the overall levels of interest rates in the economy. They might also be explained, in part, by an increased conviction that the Federal Reserve will hit its new money targets, which were released last July. If the monetary authorities were to hold the growth of money to 4 percent next year, as they currently plan, interest rates could remain relatively high for an extended period, at least until progress in lowering inflation appears to be more than temporary.

Unlike the preceding survey, the panel's outlook for about 10 percent growth of money GNP in 1982 is no longer inconsistent with the Federal Reserve's money targets. Last April, the panel looked for a rise in nominal GNP of roughly 13 percent, which was clearly at odds with the Federal Reserve's intentions to gradually lower the rate of growth of money.

Corporate Financing Plans—September 1, 1981 to August 31, 1982

One surprising finding of the April, 1981, survey was that, on balance, little change was expected in the degree of corporate reliance on internal and external funds. There has, in fact, been little change during the latest 12-month period as internal funds constituted 75 percent of total funds—the same percentage as they did for the 12-month period that ended on March 31 of this year. (In contrast, internal funds had constituted

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	*Latest Available Average (at time of survey)*	*Outlook*			
		Average Dec. '81 (4th Q GNP)	*Average March '82 (1st Q GNP)*	*Average 1982*	*Average 1983*
New Aaa industrial rate (%)	14.1	14.8	14.4	13.8	12.5
Prime rate (%)	20.5	18.4	17.4	16.0	13.7
Dow-Jones Average (Index)	948.0	878.0	919.0	956.0	1,071.0
Real GNP (%)	—1.9	1.1	2.1	2.2	3.5
GNP deflator (%)	6.0	8.1	7.7	7.8	7.3

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	*B Outlook (coming 12 months)—Number of Respondents*				
	Actual (past 12 months)	*Stable (Up or Down by less than 5 percentage points)*	*Up (percentage points)*		*Down (percentage points)*	
			5-9.99	*10 or more*	*5-9.99*	*10 or more*
(a) Composition of Total Funds						
Internal Funds[1]	75	13	3	12	0	8
External Funds	25	13	0	8	3	12
	100%					
(b) Composition of *External Funds*						
Net bond issues	27.6	9	0	13	3	7
Private placements	15.4	22	1	1	2	6
Net new equity	13.2	20	1	5	0	6
Bank term loans	13.3	23	1	4	0	4
Bank short-term loans	3.5	26	0	3	0	3
Commercial paper	21.3	21	0	4	0	7
Other	5.7	28	1	1	0	2
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1981:

	Latest Available 9/1/81	*Expected Change (Number of Respondents)*									
		By December 31, 1981					*By March 31, 1982*				
		Less than 1% change	*Appreciate 1%-5%*	*Appreciate ►5%*	*Depreciate 1%-5%*	*Depreciate ►5%*	*Less than 1% change*	*Appreciate 1%-5%*	*Appreciate ►5%*	*Depreciate 1%-5%*	*Depreciate ►5%*
Canadian dollar	$ .8301	6	22	0	6	0	8	22	0	4	0
British pound	1.83	8	8	3	11	3	3	13	3	13	2
German mark	.4075	8	19	5	2	0	1	20	9	3	1
Japanese yen	.0043	5	19	7	2	0	1	16	13	2	1
Gold	$421.50	3	15	7	2	1	3	14	6	2	4

roughly 80 percent of total corporate funds during each 12-month period from September 1, 1975 through September 1, 1979). For the future, however, greater reliance on internal funds is anticipated for the companies in this survey. Fifteen executives look for internal funds to rise by at least 5 percentage points as a percentage of total corporate funds; eight executives look for them to decline in relation to total corporate funds; the remaining executives expect internal funds to remain stable.

As regards corporate external financing plans, companies will continue their efforts to increase net bond issues; and they are now prepared to do so at interest rates that would have kept them from issuing new long-term debt as little as one year ago. The heavy reliance on commercial paper during the past twelve-month period is not expected to continue—only four executives look for commercial paper to increase as a percentage of total external funds; seven look for commercial paper to decline as a percentage of external funds, suggesting that the funding of short-term debt is a major objective influencing the planned increase in net bond issues.

The International Environment

The extraordinarily high interest rates in the United States throughout most of 1981 contributed to an unexpected degree of strength in the U.S. dollar through August, 1981. The unusual degree of strength, however, is a clear indication that other forces than interest rates were at work—including the surplus in the U.S. current account for the second consecutive year, as well as changes in the political and social environment.

In the panel's view, even though U.S. interest rates are seen as remaining relatively high, the U.S. dollar is expected to weaken against the German mark, the Japanese yen and the Canadian dollar over the next two quarters. The price of gold is also expected to rise against the U.S. dollar over both quarters from its price as of September 1.

The outlook for the British pound, however, is more divided, as it has been in earlier surveys. Fourteen executives look for the pound to be lower by December 31, and 15 executives see it lower by March 31, 1982, from its exchange value as of September 1st.

In view of the relatively high value of the U.S. dollar at the beginning of September, 1981, it may well be significant that the majority of financial executives sees the exchange value of the Canadian dollar, the mark, and the yen rising in a limited range of 1 to 5 percent. This relatively minor depreciation suggests that they view the U.S. dollar as temporarily overvalued, but it is also consistent with the position that a more fundamental strengthening of the dollar has taken place.

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